

**Financial Statements**

**St. Joseph County  
Community Mental Health Services**

**Three Rivers, Michigan**

**September 30, 2005**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>St. Joseph County Community Mental Health</b>	County <b>St. Joseph</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>12/13/05</b>	Date Accountant Report Submitted to State: <b>3/28/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED  
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

MAR 29 2006

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>	City <b>Alma</b>	State <b>MI</b>	ZIP <b>48801</b>
Accountant Signature 		Date <b>3/28/06</b>	

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## INDEPENDENT AUDITOR'S REPORT

St. Joseph County Community Mental Health Services  
Three Rivers, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of St. Joseph County Community Mental Health Services (the Authority), a component unit of St. Joseph County, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2005 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I - IV and budgetary comparison information on page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 13, 2005

**MANAGEMENT'S DISCUSSION and ANALYSIS**

**St. Joseph County Community Mental Health Services**  
Financial Statements for the Fiscal Year Ended September 30, 2005  
Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides an introduction to the financial statements of St. Joseph County Community Mental Health Services (SJCCMHS) for the fiscal year ended September 30, 2005. This presentation is an effort to better inform the reader of the financial statements and presents an analysis and overview of the financial activities and conditions of the organization during the past fiscal year.

SJCCMHS is a community mental health authority established by the Board of Commissioners of St. Joseph County pursuant to the Michigan Mental Health Code. The County Board of Commissioners appoints members to the Mental Health Board, which governs the agency.

Financial Highlights

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental and Substance Abuse Services (KCMSAS) was awarded the contract for the four county area of Kalamazoo, Allegan, Cass and St. Joseph counties. KCMSAS then entered into a Medicaid sub-contract agreement with each of the three Community Mental Health Service Programs (CMHSPs). Separate General Fund contracts were issued by the state to each individual CMHSP.

This contracting arrangement is expected to remain the same through fiscal year 2006.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The **government-wide financial statements** are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business. The report includes two government-wide statements that focus on operations of the organization as a whole.

The Statement of Net Assets presents information of all of St. Joseph County Community Mental Health Services' (SJCCMHS) "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled). Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis, meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related movement of cash.

The **fund financial statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. SJCCMHS, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental fund statements have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

The proprietary fund reported by SJCCMHS in fiscal year 2004 was a reserve account held as a self-retention portion of risk insurance. This fund was liquidated during fiscal year 2004 due to the unavailability of risk insurance.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year:

	<b>FY 2005</b>	<b>FY 2004</b>
<b>Assets</b>		
Cash and cash equivalents	\$1,498,221	\$2,045,356
Accounts receivable	16,688	13,560
Due from other governmental units	413,593	21,021
Prepaid items	92,430	131,844
Restricted cash	130,728	128,387
General fixed assets	<u>117,679</u>	<u>136,062</u>
Total Assets	<u>2,269,339</u>	<u>2,476,230</u>
<b>Liabilities</b>		
Accounts payable	524,879	620,954
Accrued wages and other payroll		
Liabilities	83,583	76,828
Deferred revenue	333	43,770
Due to other governmental units	97,201	210,762
Compensated absences	<u>136,135</u>	<u>136,685</u>
Total Liabilities	<u>842,131</u>	<u>1,088,999</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	117,679	136,062
Unreserved	<u>1,309,529</u>	<u>1,251,169</u>
Total Net Assets	<u>\$1,427,208</u>	<u>\$1,387,231</u>



Several significant variances were revealed in this statement which is explained as follows:

	<b>FY 2005</b>	<b>FY 2004</b>
Cash and cash equivalents	\$1,498,221	\$2,045,356
Due from other governmental units	413,593	21,021
Deferred revenue	333	43,770
Due to other governmental units	97,201	210,762

In fiscal year 2005, SJCCMHS expended \$392,542 more in Medicaid than received as an advance from KCMSAS. This amount is reflected in the balance due from other governmental units. This shortage has also reduced our cash on hand.

In fiscal year 2004, SJCCMHS had a general fund carry forward of \$43,770 which is reflected in the deferred revenue account. In fiscal year 2005, there is no general fund carry forward. The balance of \$333 is from a Federal block grant for PATH housing.

The amount due to other governmental units is significantly lower in fiscal year 2005. This is a result of a lower state inpatient census at year end and an improvement in the timeliness of state inpatient billings.

#### Budgetary Highlights

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The SJCCMHS Board reviews and adopts an annual budget in September for an October 1 start date. The funding levels of state and federal funding are often not known until well after the start of the fiscal year. Funding levels are also subject to change during the fiscal year.

SJCCMHS is required to provide services to Mental Health Code priority populations and Medicaid eligible individuals who meet criteria according to the Michigan Department of Community Health Master Contract. Many of these services must be provided regardless of available resources.

#### Factors Impacting the Future

The Michigan Department of Community Health rebased the Medicaid funding beginning in FY 2006. This rebasing effort caused significant swings in Medicaid funding levels for a number of PIHPs. The Michigan Association of Community Mental Health Boards is coordinating an effort to mitigate the impact of losses to some PIHPs which resulted from the new rates.

Section 462 of the FY 2006 Michigan Department of Community Health (MDCH) appropriation act contains a requirement for a work group to study funding equity issues. This section calls on the MDCH to establish a work group to develop a plan to achieve state general fund equity among all CMHSPs.

One issue under current negotiation with the MDCH is the financial responsibility for state inpatient individuals determined to be not guilty by reason of insanity (NGRI). Currently, SJCCMHS is financially responsible for an NGRI individual but has no control over the inpatient discharge. No additional state funding is available to cover this increased expense.

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

St. Joseph County Community Mental Health Services  
Statement of Net Assets  
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$1,498,221	\$2,045,356
Accounts receivable	16,688	13,560
Due from other governmental units	413,593	21,021
Prepaid items	92,430	131,844
Total current assets	2,020,932	2,211,781
Noncurrent assets		
Cash and cash equivalents - restricted	130,728	128,387
Capital assets - depreciable, net	117,679	136,062
Total noncurrent assets	248,407	264,449
Total assets	2,269,339	2,476,230
<b>Liabilities</b>		
Current liabilities		
Accounts payable	524,879	620,954
Accrued wages and other payroll liabilities	83,583	76,828
Deferred revenue	333	43,770
Due to other governmental units	97,201	210,762
Total current liabilities	705,996	952,314
Noncurrent liabilities		
Compensated absences	136,135	136,685
Total liabilities	842,131	1,088,999
<b>Net Assets</b>		
Invested in capital assets, net of related debt	117,679	136,062
Unrestricted	1,309,529	1,251,169
Total net assets	\$1,427,208	\$1,387,231

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Statement of Activities  
For the Years Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Change in Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$10,703,491</u>	<u>\$8,648,367</u>	<u>\$2,066,095</u>	\$10,971	(\$80,073)
General revenues					
Unrestricted investment earnings				29,006	21,733
Restricted investment earnings				-	707
Total general revenues and contributions				<u>29,006</u>	<u>22,440</u>
Change in net assets				39,977	(57,633)
Net assets - beginning of year				<u>1,387,231</u>	<u>1,444,864</u>
Net assets - end of year				<u>\$1,427,208</u>	<u>\$1,387,231</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**

St. Joseph County Community Mental Health Services  
Balance Sheet  
Governmental Funds  
September 30, 2005 and 2004

	Special Revenue Fund	
	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$1,498,221	\$2,045,356
Accounts receivable	16,688	13,560
Due from other governmental units	413,593	21,021
Prepaid items	92,430	131,844
Restricted cash	130,728	128,387
Total assets	<u>\$2,151,660</u>	<u>\$2,340,168</u>
<b>Liabilities</b>		
Accounts payable	\$524,879	\$620,954
Accrued wages and other payroll liabilities	83,583	76,828
Deferred revenue	333	43,770
Due to other governmental units	97,201	210,762
Total liabilities	<u>705,996</u>	<u>952,314</u>
<b>Fund balances</b>		
Reserved for prepaid items	92,430	131,844
Reserved for compensated absences	136,135	136,685
Unreserved	1,217,099	1,119,325
Total fund balances	<u>1,445,664</u>	<u>1,387,854</u>
Total liabilities and fund balances	<u>\$2,151,660</u>	<u>\$2,340,168</u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended September 30, 2005

Total fund balance - governmental funds	\$1,445,664
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	713,183
Deduct: accumulated depreciation	(595,504)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(136,135)</u>
Net assets of governmental activities	<u><u>\$1,427,208</u></u>

See Accompanying Notes To Financial Statements



St. Joseph County Community Mental Health Services  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Years Ending September 30, 2005 and 2004

	Special Revenue Fund	
	2005	2004
<b>REVENUES</b>		
State grants		
Department of community health - formula and categorical	\$1,733,940	\$1,718,453
Title XX	1,528	1,528
Other state grants	10,604	10,796
Total state grants	<u>1,746,072</u>	<u>1,730,777</u>
Federal grants	<u>69,462</u>	<u>71,740</u>
Contributions - local units		
County appropriations	<u>192,980</u>	<u>192,980</u>
Charges for services		
Medicaid	8,437,614	7,880,103
Client and third party pay	183,327	129,517
Contract revenue	27,426	13,449
Total charges for services	<u>8,648,367</u>	<u>8,023,069</u>
Interest and rents		
Interest	29,006	21,733
Rents	36,626	55,003
Total interest and rents	<u>65,632</u>	<u>76,736</u>
Other revenue	<u>20,955</u>	<u>15,532</u>
Total revenues	<u>10,743,468</u>	<u>10,110,834</u>
<b>EXPENDITURES</b>		
Health & welfare - mental health		
Personnel costs	2,678,080	2,626,001
Operating expenditures	7,951,507	7,485,730
Capital outlay	<u>56,071</u>	<u>72,872</u>
Total expenditures	<u>10,685,658</u>	<u>10,184,603</u>
Excess of revenues over expenditures	57,810	(73,769)
Other financing sources (uses)		
Operating transfers in (out)	<u>-</u>	<u>111,293</u>
Excess of revenues and other sources over (under) expenditures and other uses	57,810	37,524
Fund balance, October 1	<u>1,387,854</u>	<u>1,350,330</u>
Fund balance, September 30	<u><u>\$1,445,664</u></u>	<u><u>\$1,387,854</u></u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$57,810
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	56,071
Deduct: depreciation expense	(53,151)
Deduct: disposal of fixed assets	(21,303)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: Decrease in accrual for compensated absences	<u>550</u>
Change in net assets of governmental activities	<u><u>\$39,977</u></u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Statement of Net Assets  
Proprietary Funds  
September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	-	-
Due from other funds	-	-
	<u>          </u>	<u>          </u>
Total assets	<u>          </u>	<u>          </u>
Net assets		
Restricted	<u>          </u>	<u>          </u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Years Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Non-operating revenues		
Interest income	-	\$707
Operating transfers		
Operating transfers in (out) - special revenue fund	<u>-</u>	<u>(111,293)</u>
Change in net assets	-	(110,586)
Net assets, beginning of year	<u>-</u>	<u>110,586</u>
Net assets, end of year	<u><u>-</u></u>	<u><u>-</u></u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Statement of Cash Flows  
Proprietary Funds  
For the Years Ended September 30, 2005 and 2004

	Internal Service Funds	
	2005	2004
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Operating transfers in	-	-
Operating transfers out	-	(\$104,445)
Net cash provided (used) for noncapital financial activities	-	(104,445)
Cash flows from investing activities		
Proceeds from interest earnings	-	707
Net increase (decrease) in cash	-	(103,738)
Cash and cash equivalents, beginning of year	-	103,738
Cash and cash equivalents, end of year	-	-
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes To Financial Statements

## **NOTES TO THE FINANCIAL STATEMENTS**

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the St. Joseph County Community Mental Health Services (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of St. Joseph County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

The Authority is an integral part of the County of St. Joseph, the oversight unit. The financial statements of the Authority should be included in the annual financial report of the County of St. Joseph, as a discretely presented component unit.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



St. Joseph County Community Mental Health Services  
Notes to Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

Special Revenue Fund - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

**Cash and Cash Equivalents - Restricted**

The Authority has charged to the Department of Community Health, the vested portion of compensated absences as of September 30. The Authority maintains a separate cash account for payment of the compensated absences liability.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include furniture, fixtures and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Furniture, Fixtures and Equipment	3 – 20
Computer Equipment	5
Vehicles	5

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Compensated Absences**

Authority policy allows full time employees to accumulate sick and vacation time at various rates, depending on the employee's length of service with the Authority. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present expenditures and the related liability when these compensated absences are earned.

**Governmental Fund - Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. The reserves for future payment of compensated absences are examples of the latter.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts budgeted as shown on page 23 of this report.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**NOTE 3 - DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup> the carrying amount of the Authority's cash and cash equivalents are as follows:

	2005	2004
Petty cash	\$130	\$160
Cash and cash equivalents	1,498,091	2,045,196
Cash and cash equivalents - restricted	130,728	128,387
<b>Totals</b>	<b>\$1,628,949</b>	<b>\$2,173,743</b>

At year end, the carrying amount of deposits for the Authority was \$1,628,819, and the bank balance was \$1,826,856. Of the bank balance, \$101,682 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consist of the following:

	2005	2004
State of Michigan – Various Grants	\$21,051	\$21,021
Kalamazoo Community Mental Health Authority	392,542	-
<b>Totals</b>	<b>\$413,593</b>	<b>\$21,021</b>

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Changes in Capital Assets**

A summary of changes in capital assets is as follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Furniture, Fixtures and Equipment	\$247,009	\$2,510	-	\$249,519
Computer Equipment	296,491	53,561	(\$32,230)	317,822
Vehicles	154,706	-	(8,864)	145,842
Sub-total	698,206	56,071	(41,094)	713,183
Accumulated Depreciation	(562,144)	(53,151)	19,791	(595,504)
<b>Totals</b>	<b>\$136,062</b>	<b>\$2,920</b>	<b>(\$21,303)</b>	<b>\$117,679</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2005</b>	<b>2004</b>
State of Michigan – Inpatient / Residential Care	\$97,201	\$168,891
Kalamazoo Community Mental Health Authority	-	41,871
<b>Totals</b>	<b>\$97,201</b>	<b>\$210,762</b>

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.



St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Long-Term Debt – Compensated Absences**

Authority policy allows their employees to accumulate vacation, sick and other compensated absences at various rates, depending on the employee's length of service with the Authority. As of September 30, 2005 and 2004 this liability was \$136,135 and \$136,685, respectively.

**Operating Leases**

The Authority has entered into various operating leases for the use of real property. Operating leases do not give rise to property rights or lease obligations, and therefore are not reported as assets or liabilities in these financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30th:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2006	\$143,397
2007	93,512
2008	47,534
2009	-
2010	-
Thereafter	-

**Compliance Audits**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

**Risk Management**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Risk Management – Internal Service Fund**

During the September 30, 2001 fiscal year, the Authority authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program contract. This contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

During the 2004 fiscal year, the assets of this fund has been transferred to the special revenue fund and considered during the 2004 contract settlement process with the Michigan Department of Community Health.

**Pension Plan**

Plan Description

The Authority contributes to a defined contribution plan for qualified employees. The name of this plan is the "Community Mental Health Services of St. Joseph County Money Purchase Pension Plan" and became effective February 1, 1989. The plan provides retirement and death benefits to plan members and their beneficiaries.

Funding Policy

The Authority is required to contribute an amount equal to 5% of union members' compensation, and 9.5% of all other eligible employees' compensation for the year.

For the years ended September 30, 2005 and 2004 the Authority's contribution to this plan totaled \$114,012 and \$112,893, respectively.

St. Joseph County Community Mental Health Services  
Notes to Financial Statements

**Alternative Social Security Plan**

Plan Description

Effective January 1, 2001, the Authority adopted the St. Joseph County Community Mental Health Social Security Alternative Plan for non-union employees.

Funding Policy

The Authority contributes 6.2% of all non-union personnel's salary into this plan. Employees are also required to contribute 6.2% of their salary into this plan. These are the same contribution rates as the Social Security rates and are required for wages earned up to the Social Security Maximum Base. Under this plan, employees are always 100% vested in their account.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

**REQUIRED SUPPLEMENTAL INFORMATION**

St. Joseph County Community Mental Health Services  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Special Revenue Fund  
For the Year Ended September 30, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>REVENUES</b>				
State grants				
Department of community health - formula and categorical	\$1,750,012	\$1,728,150	\$1,733,940	\$5,790
Title XX	1,528	1,528	1,528	-
Other state grants	10,800	10,600	10,604	4
Total state grants	<u>1,762,340</u>	<u>1,740,278</u>	<u>1,746,072</u>	<u>5,794</u>
Federal grants	<u>70,285</u>	<u>68,202</u>	<u>69,462</u>	<u>1,260</u>
Contributions - local units				
County appropriations	<u>192,980</u>	<u>192,980</u>	<u>192,980</u>	<u>-</u>
Charges for services				
Medicaid	8,062,168	8,398,051	8,437,614	39,563
Client and third party pay	122,000	144,943	183,327	38,384
Contract revenue	23,565	31,015	27,426	(3,589)
Total charges for services	<u>8,207,733</u>	<u>8,574,009</u>	<u>8,648,367</u>	<u>74,358</u>
Interest and rents				
Interest	16,000	29,300	29,006	(294)
Rents	55,000	37,500	36,626	(874)
Total interest and rents	<u>71,000</u>	<u>66,800</u>	<u>65,632</u>	<u>(1,168)</u>
Other revenue	<u>20,000</u>	<u>20,105</u>	<u>20,955</u>	<u>850</u>
Total revenues	<u>10,324,338</u>	<u>10,662,374</u>	<u>10,743,468</u>	<u>81,094</u>
<b>EXPENDITURES</b>				
Health & welfare - mental health				
Personnel costs	2,810,972	2,648,121	2,678,080	(29,959)
Operating expenditures	7,503,366	8,002,253	7,951,507	50,746
Capital outlay	10,000	12,000	56,071	(44,071)
Total expenditures	<u>10,324,338</u>	<u>10,662,374</u>	<u>10,685,658</u>	<u>(23,284)</u>
Excess of revenues over expenditures	-	-	57,810	57,810
Fund balance, October 1	<u>1,387,854</u>	<u>1,387,854</u>	<u>1,387,854</u>	<u>-</u>
Fund balance, September 30	<u>\$1,387,854</u>	<u>\$1,387,854</u>	<u>\$1,445,664</u>	<u>\$57,810</u>

See Accompanying Notes To Financial Statements

**OTHER SUPPLEMENTARY INFORMATION**

St. Joseph County Community Mental Health Services  
Supporting Schedule of Personnel Costs  
For the Years Ending September 30, 2005 and 2004

	<u>Special Revenue Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>Personnel Costs</b>		
Salaries and wages	\$2,064,986	\$2,086,892
Fringe benefits	<u>613,094</u>	<u>539,109</u>
Total personnel costs	<u><u>\$2,678,080</u></u>	<u><u>\$2,626,001</u></u>

See Accompanying Notes To Financial Statements

St. Joseph County Community Mental Health Services  
Supporting Schedule of Operating Expenditures  
For the Years Ending September 30, 2005 and 2004

	Special Revenue Fund	
	2005	2004
<b>Operating Expenditures</b>		
Advertising	\$498	\$1,118
Communications	38,849	31,738
Contractual services	6,367,323	6,042,630
Insurance	61,227	67,023
Local draw down	163,739	163,739
Meetings and conferences	41,302	54,151
Other	16,618	18,438
Printing and publishing	6,015	13,676
Rents	304,344	341,167
Repairs and maintenance	64,041	68,818
Small equipment purchases	6,371	30,272
State inpatient services	699,184	454,195
Supplies	21,696	50,238
Travel	116,603	105,870
Utilities	43,697	42,657
Total operating expenditures	<u>\$7,951,507</u>	<u>\$7,485,730</u>

See Accompanying Notes To Financial Statements





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

St. Joseph County Community Mental Health Services  
Three Rivers, Michigan

We have audited the financial statements of the governmental activities and each major fund of St. Joseph County Community Mental Health Services (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 13, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 13, 2005



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MANAGEMENT LETTER

LOCAL AUDIT & FINANCE DIV.

Board of Directors  
St. Joseph County Community Mental Health Services  
Three Rivers, Michigan

In planning and performing our audit of the financial statements for St. Joseph County Community Mental Health Services for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 13, 2005 on the financial statements of St. Joseph County Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

December 13, 2005

**GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.